Privatising SOEs in Ireland – *Is it worth it?*

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Stock of SOEs in 2013

**Energy**
- Electricity Supply Board
- Bord Gais Éireann
- Bord na Mona (Energy)
- Coillte (Forestry)

**Transport**
- CIE (Rail and Bus)
- Dublin Airport Authority
- Ports (10)
- Irish Aviation Authority

**Communications**
- RTE (Broadcasting)
- An Post

**Financial**
- National Asset Management Agency
- Anglo Irish Bank
- Educational Building Society
- Irish Nationwide Building Society
- Allied Irish Banks
- Bank of Ireland (partial)
- Irish Life & Permanent
- Voluntary Health Insurance

**Other**
- Arramarra
- Irish National Stud

**Coming on Stream**
Irish Water, Shannon Airport Authority
Development of Privatisation Agenda

- Driven by
  - (1) Domestic Policymakers and
  - (2) Troika.
- MOUs and Initial uncertainty over:
  - Revenue target – now €3bn.
  - SOEs to be sold (partial sale of ESB!)
  - Use of proceeds
For Sale 2013

- Bord Gáis Energy.
- Some electricity generating capacity
- Remaining stake in Aer Lingus (25%)
- National Lottery
- Possible sale of Coillte (harvesting rights – not land).
Assessing Privatisation Plans 1: 
*Vis-a-Vis the NewERA Plan*

- Only detailed vision for SOE sector presented by trade unions.
- Adopted later (2009) by Fine Gael - *NewERA Plan*
- Involves:
  - Using SOEs as vehicle for investment in infrastructure;
  - Altering SOE governance structures;
  - Some Privatisation.
Figure 5: Financing of NewERA

Asset Sales (Medium Term)

Loans from EIB and Financial Markets

National Pension Reserve Fund

NewERA Bond For Irish Public

NewERA Ltd

Smart Grid
Gaslink
Broadband 21
Irish Water
Bio-energy & Forestry Ireland

NEW ECONOMY
## Privatisation in Ireland to date

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Gov Proceeds (€m)</th>
<th>Method of Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greencore</td>
<td>1991-93</td>
<td>210.65</td>
<td>IPO + Place</td>
</tr>
<tr>
<td>Irish Life</td>
<td>1991-93</td>
<td>601.93</td>
<td>IPO + Place</td>
</tr>
<tr>
<td>B&amp;I Line</td>
<td>1992</td>
<td>10.8</td>
<td>Trade Sale</td>
</tr>
<tr>
<td>Irish Steel</td>
<td>1995</td>
<td>0</td>
<td>Trade sale</td>
</tr>
<tr>
<td>Eircom</td>
<td>1999</td>
<td>6,399.907</td>
<td>IPO + T.Sale</td>
</tr>
<tr>
<td>ICC Bank</td>
<td>Jan 2001</td>
<td>322.274</td>
<td>Trade Sale</td>
</tr>
<tr>
<td>TSB Bank</td>
<td>April 2001</td>
<td>408.35</td>
<td>Trade Sale</td>
</tr>
<tr>
<td>INPC</td>
<td>May 2001</td>
<td>20.0</td>
<td>Trade Sale</td>
</tr>
<tr>
<td>ACC Bank</td>
<td>Dec 2001</td>
<td>154.6</td>
<td>Trade Sale</td>
</tr>
<tr>
<td>Aer Lingus</td>
<td>Oct 2006</td>
<td>240.902m</td>
<td>IPO</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>€8,369.4bn</strong></td>
<td></td>
</tr>
</tbody>
</table>
Privatisation Objectives – 1. Performance/Efficiency

- Theoretical case not strong. Depends on competition
- Evidence is mixed.
- Pattern of improved performance before divestiture (static efficiency gains)
- Not always sustained after divestiture (dynamic efficiency)
- Factors such as product market competition and regulation generally more important determinants of performance
Other Objectives

2. *Raising Revenue for the Exchequer*
   - Objective is maximise proceeds (minimise costs)
   - Costs include:
     - Discounts
     - Transaction Costs
     - Debt write-offs

3. *Widening Share Ownership/ Re-Distribution*
   - Sell share to citizens, employees, customers
   - Reduce trade union power
Irish experience: Performance / Efficiency

10 companies: pre- and post-privatisation data available for:

- All 4 floated companies
- Irish Steel and ISPAT
- INPC and ConocoPhillips
- B&I and Irish Ferries
- 2 of the 3 state banks (no post-privatisation data for TSB)
Privatisation and Performance Example: Irish Sugar
Authors’ calculation from annual report data

Privatised in April 1991
Privatisation and Productivity Example: Irish Sugar

Authors’ calculation from various data sources
Performance / Efficiency (cont/d)

- Irish Life (IL&P 1999): Improvements before and after
- B&I Line (ICG): Marked improvement after
- 3 State Banks:
  - ICC (BoSI): Improvements before and after
  - ACC (Rabobank): Modest improvements after
  - TSB (IL&P): Modest improvement before. No post-privatisation data
Eircom: How not to Privatise!

- Total debt:
  - 1999 = €340 million
  - 2007 = €4.27 billion
  - 2012 – Eircom in examinership.
- Eircom exits mobile telephony in 2001 (re-enters 2005)
- Slow progress on LLU.
- Maintains approx. 53% market share in fixed line market (was c. 80% in 2001-2005, c. 70% 2006-09).
- Significant underinvestment due to cash extraction by PEGs.
- Ireland perennially behind competitors in terms of broadband rankings.
- State has had to re-enter telecoms sector
Overall conclusions on privatisation and performance

• In general, empirical evidence fails to confirm simple hypothesis of improved performance after privatisation

• Irish experience consistent with international experience
  – Eircom experience dominates
Privatisation and exchequer

• Revenues = €8.37 billion

• Revenues foregone?
  – Biggest cost due to ESOPs - €1.01bn
  – Share discounts (except Eircom) relatively low - €0.9bn
  – All costs = €2.14bn
  – Also, some debt write-offs questionable (e.g. B&I)
Distributional issues

• Winners and losers

• Shareholders:
  – Widening Share Ownership?
  – Winners - Private Equity Groups
  – Losers - Small shareholders

• Other Big Winners - Employees & ESOPs
## Estimates of value of ESOPs to employees 2010

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall ESOP value (€m)</th>
<th>Per employee - Ex Ante (€)</th>
<th>Per employee - Ex Post (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eircom</td>
<td>1,252.7</td>
<td>€105,333</td>
<td>€93,000</td>
</tr>
<tr>
<td>ACC</td>
<td>24.6</td>
<td>€50,000</td>
<td>same</td>
</tr>
<tr>
<td>ICC</td>
<td>52.0</td>
<td>€145,328</td>
<td>€88,900</td>
</tr>
<tr>
<td>TSB</td>
<td>64.1</td>
<td>€53,446</td>
<td>€76,000</td>
</tr>
<tr>
<td>INPC</td>
<td>8.9</td>
<td>€38,734</td>
<td>$83,000</td>
</tr>
<tr>
<td>Aer Lingus</td>
<td>173.7</td>
<td>€37,242</td>
<td>€15,000</td>
</tr>
</tbody>
</table>
Conclusions

• A new era of privatisation inevitable.

• Conditionality means privatising to raise revenue (not a good starting point).

• Most important consideration should be efficiency (translating into lower prices etc.)

• Sales should be confined to SOEs in ‘competitive markets’.
Conclusions

- Smart privatisation’ – state should retain some control

- *Ex ante* analysis of individual sales should be made before any final decision

- Development of privatisation policy in recent months raises concerns
## Gross proceeds and total costs (€millions)

<table>
<thead>
<tr>
<th>Company</th>
<th>Gross Proceeds</th>
<th>Direct Costs (1)</th>
<th>Indirect Costs (2)</th>
<th>ESOPs (3)</th>
<th>Total 1+2+3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greencore</td>
<td>210.651</td>
<td>1.727</td>
<td>17.462</td>
<td>-</td>
<td>19.189</td>
</tr>
<tr>
<td>B&amp;I</td>
<td>10.793</td>
<td>-</td>
<td>44.441</td>
<td>-</td>
<td>44.441</td>
</tr>
<tr>
<td>Irish Steel</td>
<td>0</td>
<td>0.656</td>
<td>47.328</td>
<td>-</td>
<td>47.984</td>
</tr>
<tr>
<td>Eircom</td>
<td>6,399.908</td>
<td>97.643</td>
<td>777.575</td>
<td>1,011.484</td>
<td>1,886.702</td>
</tr>
<tr>
<td>ICC</td>
<td>322.275</td>
<td>0.913</td>
<td>-</td>
<td>26.887</td>
<td>27.800</td>
</tr>
<tr>
<td>TSB</td>
<td>408.350</td>
<td>0.461</td>
<td>-</td>
<td>38.995</td>
<td>39.456</td>
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<tr>
<td>INPC</td>
<td>20.000</td>
<td>1.480</td>
<td>-</td>
<td>-</td>
<td>1.480</td>
</tr>
<tr>
<td>ACC</td>
<td>154.603</td>
<td>1.159</td>
<td>-</td>
<td>12.385</td>
<td>13.544</td>
</tr>
<tr>
<td>Aer Lingus</td>
<td>240.902</td>
<td>6.000</td>
<td>26.282</td>
<td>-</td>
<td>32.282</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,369.413</strong></td>
<td><strong>119.444</strong></td>
<td><strong>934.761</strong></td>
<td><strong>1,089.751</strong></td>
<td><strong>2,143.956</strong></td>
</tr>
</tbody>
</table>

Note: Indirect costs include the cost of underpricing and debt write-offs.
Greek bailout(s)

- Greece – August 2010
  - Dec 2010: target of €7bn.
  - Feb 2011: €15bn by 2015 (incl. real estate)

- New deal in July 2011:
  - Target of €5 billion by 2011,
  - €15bn by 2012,
  - €50bn by 2015 (22% of 2011 GDP)!

- Target has been continually revised downwards due to delays
  - EC recently forecast €8.5bn in sales by 2016
Portuguese bailout

- Portugal – MOU signed in May 2011
  - Accelerate existing plans for sales - €5bn
    - Full (not partial) divestiture of electricity SOEs
    - Others in rail, airports, airlines, post, insurance.
  - Portugal exceeded target for sales in December 2012 when it sold airports operator for €3bn